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## Spain

## Wine

## Annual

## 2003

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**Report Highlights:**

Spain's 2003 wine vintage is estimated at 37 million hectoliters, or about 1 million more than in 2002. Domestic wine consumption has continued to decline except for quality wines. Wine exports were stagnant in 2002 but have been growing notably in the first half of this year. The wine industry faces challenges in boosting both domestic and export markets. The renewal of the EU-US wine accord continues to drag on; Spain favors a comprehensive agreement that protects the names of its geographic production areas.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Madrid [SP1]  
[SP]

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## Executive Summary

Spain's 2003 wine vintage is currently estimated at about 37 million hectoliters (one hectoliter=100 liters), 1 million hectoliters more than in the preceding year. As in other European wine producing areas, last summer's heat wave reduced harvest size but enhanced quality.

The long-lasting trend toward declining wine consumption continued last year. Total bottled wine sales in the distribution system in Spain fell to 11.99 million hectoliters in 2002, a drop of 2.8 percent from the previous year. The decline is largely due to shrinking use of cheaper "table" wines. Consumption of quality wine is still growing slowly.

Spanish wine exports in CY 2002 remained practically stable at about 10.6 million hectoliters worth €1.4 billion. The main destinations, value basis, were the rest of the EU (69 percent), the United States (10 percent) Switzerland (5 percent), and Japan, Norway, and Canada (2 percent each). The value of Spanish wine exports to the U.S. in 2002 increased 17 percent to €136 million. Wine exports so far 2003 are notably increasing. For the next couple of years, current abundant inventories coupled with reduced prices and declining EU wine production may boost Spanish wine exports. For the longer term, however, forecasts are difficult to make since Spanish grape harvests are very vulnerable to drought and frost.

Wine imports in CY 2002 increased moderately to 0.26 million hectoliters but in terms of value increased 13 percent to €80 million. Spain's wine imports are mainly French champagne and a few narrow market segments of quality wines and "table" wines that come mainly from France, Italy and Portugal.

The vineyard restructuring program (which is part of the EU's wine regime) is renewing about 100,000 hectares of vineyards in Spain (representing 8 percent of total vineyards) with more profitable, market-oriented varieties. The program is active mainly in central Spain.

The negotiations for the renewal of the United States-EU wine accord have intensified lately since the current EU derogation for the U.S. wine making practices expires on December 31, 2003. Since big differences still exist – protection of geographic names, wine-making practices and registered trade marks in particular -- it is likely that a minimum, temporary accord aimed at preventing trade disruption will be reached. Spain, however, is seeking a broader accord that includes effective protection to its semi-generic wine names such as "Sherry" and "Malaga."

(€(euro)1.00 = \$1.17)

## PSD Table

Country Commodity	Spain		(1000 MT)(1000 HL)				UOM
	2001	Revised	2002	Estimate	2003	Forecast	
Market Year Begin	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [New]	
	08/2001		08/2002		08/2003		MM/YYYY
TOTAL Grape Crush	4900	4950	0	5800	0	5900	(1000 MT)
Begin Stock (Ctrl App)	21900	20900	0	21700	0	20900	(1000 HL)
Begin Stock (Other)	12600	12000	0	9900	0	11300	(1000 HL)
TOTAL Beginning Stocks	34500	32900	0	31600	0	32200	(1000 HL)
Prod. from Wine Grapes	30600	30800	0	35800	0	36900	(1000 HL)
Prod. from Tabl Grapes	400	150	0	200	0	200	(1000 HL)
TOTAL PRODUCTION	31000	30950	0	36000	0	37100	(1000 HL)
Intra-EU Imports	600	210	0	260	0	265	(1000 HL)
Other Imports	10	15	0	20	0	20	(1000 HL)
TOTAL Imports	610	225	0	280	0	285	(1000 HL)
TOTAL SUPPLY	66110	64075	0	67880	0	69585	(1000 HL)
Intra-EU Exports	8500	7200	0	7900	0	8200	(1000 HL)
Other Exports	2500	2800	0	3200	0	3800	(1000 HL)
TOTAL Exports	11000	10000	0	11100	0	12000	(1000 HL)
Dom.Consump(Cntrl App)	7400	8300	0	8600	0	8900	(1000 HL)
Dom.Consump(Other)	15810	14175	0	15980	0	15900	(1000 HL)
TOTAL Dom.Consumptio	23210	22475	0	24580	0	24800	(1000 HL)
End Stocks (Cntrl App)	19500	21700	0	20900	0	20800	(1000 HL)
End Stocks (Other)	12400	9900	0	11300	0	11985	(1000 HL)
TOTAL Ending Stocks	31900	31600	0	32200	0	32785	(1000 HL)
TOTAL DISTRIBUTION	66110	64075	0	67880	0	69585	(1000 HL)

## PRODUCT NARRATIVE

**Production**

Despite a recent major reduction in Spanish vineyards, the area planted to vines in Spain continues to be the largest in the EU, accounting for about one third of the EU vineyard area. Nevertheless, Spain's total wine production ranks behind France and Italy, mainly due to the country's limited rainfall, poor soils in certain areas, and restrictive measures on vineyard irrigation. The size of wine grape crops is highly variable depending on each year's weather. Spanish vineyards are mostly rain-fed (only 10 percent of vineyards are under irrigation) and thus are highly sensitive to the country's dry climate.

The area planted to vineyards has been shrunk by the EU's vineyard uprooting program, which has been mainly applied to Spain. The latest estimate of the wine grape area is about 1.17 million hectares, compared with 1.50 million hectares in 1985, when Spain joined the EU. Despite this acreage reduction, production levels have not diminished significantly. Greater marketing opportunities in the EU have led to increased growers' returns, which have been invested in modernizing vineyards, increasing mechanization and irrigation.

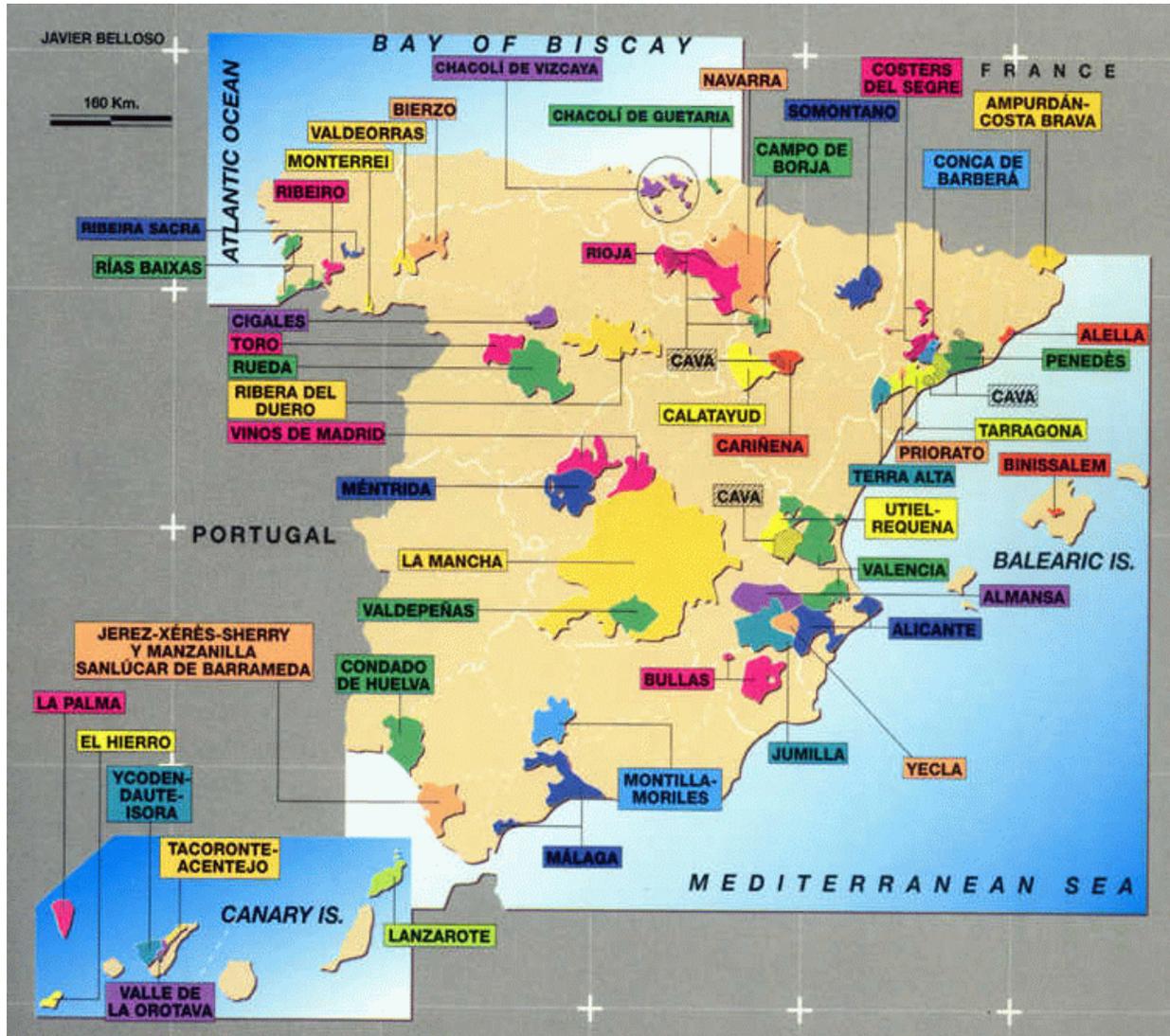
The 2003 vintage would have been significantly larger were it not for a summer heat wave that hurt vineyards. A breakdown of "wine and must" production by areas in the last two years follows:

	2002	2003
	(1,000 Hectoliters)	
Castilla-La Mancha	20,300	20,800
Extremadura	3,500	2,500
Cataluña	3,200	3,200
Rioja	1,400	2,300
Andalucía	2,000	1,900
Valencia Region	3,000	2,900
Castilla-León	1,300	1,500
Aragón	1,000	1,000
Galicia	1,200	1,400
Navarra	700	1,100
País Vasco	400	600
Murcia	700	700
Madrid	500	500
Canary Islands	200	200
<b>TOTAL WINE AND MUSTS</b>	<b>39,400</b>	<b>40,600</b>

Due to the diversity of Spanish soils and climates, there are many wine areas which produce a broad range of wine types. There are currently about 60 different Appellation of Origins (AO) throughout the country. Of Spain's 17 Autonomous regions, only two— Asturias and Cantabria— do not have an AO. Total area planted to AO vineyards is currently at about 620,000 ha, representing over half of the total vineyard area. Castilla-La Mancha, LaRioja, Utiel-Requena, Valdepenas, Valencia, Carinena and Navarra are the regions with the most AO vineyards.

AO's control both vineyards and wines produced in their particular region. Controls to vineyards include pruning and irrigation practices, yields per hectare and per variety. AO's control wines through analytical and tasting tests. Only wines that pass those tests can be labeled under their AO appellation.

Below is a Spanish Wine Appellation of Origin Map.



The EU's latest wine program (EU Regulation 1493/99) has been applied since MY 2000/01. The program aims to enhance wine quality, to provide a greater market orientation and to renew old vineyards. These goals are mostly pursued with EU regulation 493/99 for the restructuring of vineyards. Spain will absorb most of the restructuring funds, with about 100,000 hectares undergoing restructuring during the ten-year program. "Restructuring" means either to change to better varieties (especially surplus white grapes to more commercially-oriented red grapes) or to change the pruning system from vase to the more modern espaliers. The EU's share for the financing of restructuring programs is 50 percent, but in the least developed areas it can go up to 75 percent. Castilla-La Mancha is by far the principal recipient of these aids in Spain. Farmers' groups, such as cooperatives, get a higher aid rate for restructuring than do individual farmers.

The current EU ban on planting new vineyards was extended through July 31, 2010. A reserve of planting rights of no more than one percent of the total vineyard area permits the transfer of planting rights between regions; young farmers are supposed to be the main beneficiaries of these transfers. This reserve would allow Spain's vineyard area to reach a maximum of 1.22 million hectares.

The current EU wine regime includes a special distillation scheme to secure alcohol to producers of fortified wines and brandy, as well as a "crisis" distillation scheme for years with surges in wine stocks or severe quality reductions. During MY 2001/02, nearly 7 million hectoliters of "table" wine were used in Spain for the production of the so-called "edible" alcohol, representing 56 percent of the EU total. Distillers received a subsidy of nearly €2.50 per hectograde. Unlike the preceding year, no crisis distillation was done in Spain in MY2001/02. Subsidies paid for crisis distillation are very low, generally well under wine market prices. EU storage aids are also available for "table" wine producers.

The EU wine regime supports some enological practices, including *chaptalization*, the practice of adding sugar to wine during the fermentation process to increase the alcohol content. This is a very contentious issue between Northern and Southern EU countries. The former use *chaptalization* because the sugar content of northern grape varieties is low and the latter, including Spain, believe that only grape must or concentrated juice should be used to enhance the alcohol content of wines. The EU budget for the entire EU wine sector is being increased from €1.29 billion in 2001 to €1.33 billion in 2003.

The negotiations for the renewal of the United States-EU wine accord have stalled in the last decade due to disagreements about several trade-related issues. Discussions are focused primarily on differences in enological practices and procedures to approve new practices. The United States has been proposing a mutual recognition of approval systems. The major EU argument against mutual recognition centers on its desire to control "good wine making practices." The EU wants to use a positive list of practices and the United States wants a system of mutual recognition for practices approved in either country.

Another point of contention -- the protection of EU semi-generic/geographic names -- has been heated lately, especially after the Doha WTO Agenda pushed to complete negotiations by September, 2003. "Jerez" and/or "Sherry" (the name for Spanish Jerez wines abroad) and "Malaga" are the semi-generic Spanish names for which protection is sought. The U.S. has been joined by several other trading partners who believe that current trade rules provide adequate rights and effective protection of geographical names.

Also at issue is the EU's use of traditional expressions (such as "vintage", "reserve," or "aged five years") associated with a wine produced in a specific region to which the EU grants protection. Marketing of U.S. wine labeled with any of the EU's self-designated "traditional terms" would be banned in the EU.

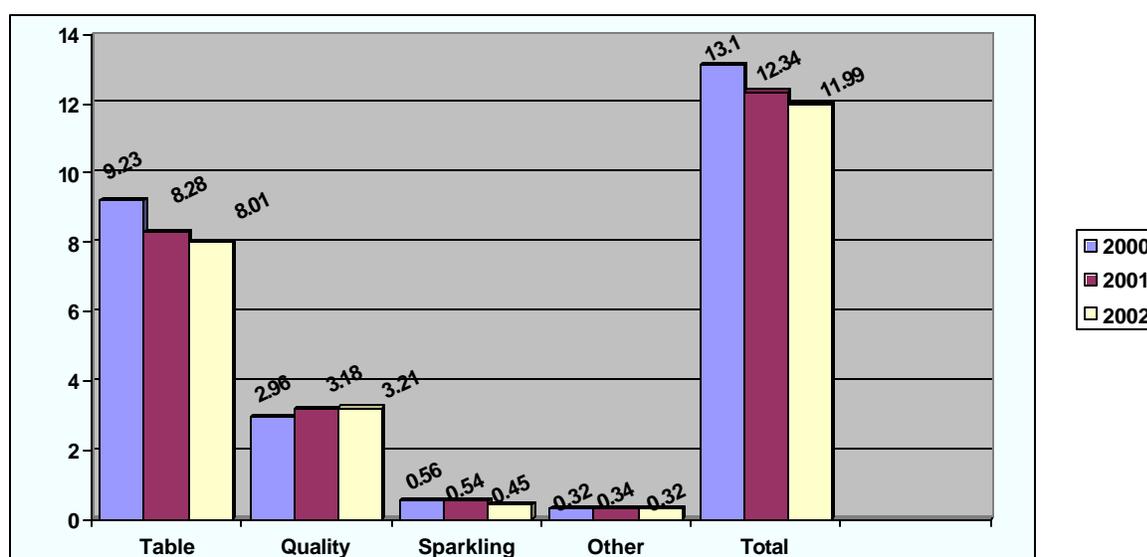
The negotiations for the renewal of the United States-EU wine accord have intensified lately, since the current EU derogation (which permits U.S. wine made with practices not approved in the EU to be marketed in the EU) expires on December 31, 2003. Since major differences still exist – protection of geographic names, wine making practices and registered trade marks in particular -- it is likely that a temporary accord aimed at preventing trade disruption will be tabled. Spain, however, is seeking a broader accord that includes protection to its semi-generic names.

## CONSUMPTION

While total wine consumption in Spain ranks fifth in the world, after France, Italy, United States and Germany; per capita consumption ranks seventh after Luxembourg, France, Italy, Portugal, Croatia and Switzerland.

As shown below, bottled wine sales (tetra-packed cheap wine included) in the distribution system in 2002 declined to 11.99 million hectoliters, a 2.78 percent decline from 2001. This is a continuation of the downward trend in wine consumption that Spain has seen for many years, table wine in particular. However, domestic sales of quality wine continue to show steady growth.

Bottled Wine Sales (Million Hls.)



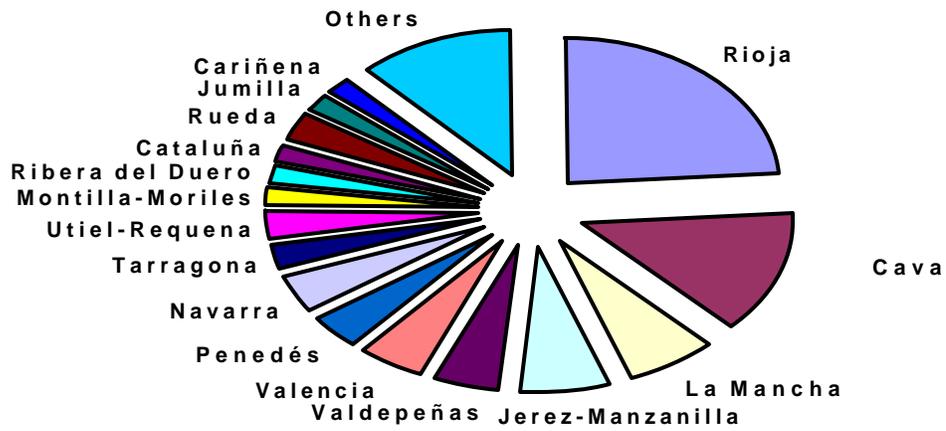
Per capita bottled wine consumption in Spain declined to 29.6 liters in 2002, one liter less than in 2001 and 5 liters less than in 1999. Last year, quality wine use increased 1.1 percent to 8 liters, while "table" wine use declined 3.3 percent to 19.7 liters.

A change in consumer habits, anti-alcohol campaigns and increased competition from other beverages are generally cited as the main factors explaining the decline in wine consumption in Spain. Mineral water and soft drinks are the beverages showing most growth during the last decade. Beer also has a higher per capita consumption (75 liters last year) than wine.

"Table" wines, which remain the most popular type consumed in Spain, are mostly sold in tetra-brick packs, followed by 3/4 liter bottles and by returnable containers; these are mostly consumed in homes.

Quality wine sales in the 2001/02 marketing year increased by 6 percent to 10.46 million hectoliters, accounting for 44 percent of total wine sales. About 62 percent of quality wines sales were made domestically and the remaining 38 percent, in export markets. Sales of bottled quality wine are showing steady growth, accounting for 83 percent of total quality wine sales.

Quality (A.O.) Wine Sales 2001/02, Market Shares



In the quality wine market, Rioja is the leading AO wine type sold in the domestic market and cavas (sparkling) are the most sold in export markets. Reds account for 55 percent of domestic sales; whites, for 21 percent; sparkling wines, 13 percent; and roses, 7 percent.

**TRADE****Trade Flows**

	<u>CY 2000</u>	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2000</u>	<u>CY 2001</u>	<u>CY 2002</u>
<b>VOLUME OF WINE IMPORTS</b>				<b>VOLUME OF WINE EXPORTS</b>		
	(1000 Hectoliters)			(1000 Hectoliters)		
- Intra EU Imports	632	234	247	7,099	8,199	7,898
- Extra EU Imports	10	18	15	2,251	2,409	2,678
TOTAL	642	252	262	9,350	10,608	10,576
<b>CIF VALUE OF WINE IMPORTS</b>				<b>FOB VALUE OF WINE EXPORTS</b>		
	(Million Euros)			(Million Euros)		
- Intra EU Imports	84	66	72	907	1,022	971
- Extra EU Imports	4	5	8	379	397	430
TOTAL	88	71	80	1,286	1,419	1,401

## Trade Market Profile

	CY 2000	CY 2001	CY 2002	CY 2000	CY 2001	CY 2002
	<b>VOLUME OF WINE IMPORTS</b>			<b>VOLUME OF WINE EXPORTS</b>		
	(1000 Hectoliters)			(1000 Hectoliters)		
Wines	584	192	155	8,714	10,047	9,783
-Sparkling	17	17	18	717	796	875
-Quality, still	40	26	38	2,749	3,088	3,148
-"Table", still	486	134	85	4,854	5,819	5,407
-Fortified	41	15	14	394	344	353
Other (1)	58	60	107	636	561	793
TOTAL	642	252	262	9,350	10,608	10,576
	<b>CIF VALUE OF WINE IMPORTS</b>			<b>FOB VALUE OF WINE EXPORTS</b>		
	(Million Euros)			(Million Euros)		
Wines	77	62	64	1,254	1,350	1,293
-Sparkling	29	27	31	229	245	253
-Quality, still	16	20	12	648	713	737
-"Table", still	25	9	15	277	286	197
-Fortified	7	6	6	100	106	106
Other (1)	11	9	16	32	68	108
TOTAL	88	71	80	1,286	1,418	1,401

(1) effervescent (carbon dioxide added) wines, grape must, vermouth, sangria and other flavored wines

## Import Trade Matrix

Country Spain

Commodity Wine

Time Period	CY	Units:	CY
Imports for:	2001	1000 HL	2002
U.S.	0.3	U.S.	0.5
Others		Others	
EU countries	234	EU countries	247
Chile	5	Chile	7
Hong-Kong	5	Argentina	3
Argentina	2.8	Switzerland	1
China	0.9	Japan	0.6
Switzerland	0.7	Australia	0.4
Japan	1	Norway	0.4
Hungary	0.3	South Africa	0.3
Australia	0.3	Hungary	0.4
		N. Zealand	0.2
Total for Others	250		260.3
Others not Listed	1.7		1.2
Grand Total	252		262

## Export Trade Matrix

Country Spain

Commodity Wine

Time Period	CY	Units:	CY
Exports for:	2001		2002
U.S.	229	U.S.	281
Others		Others	
EU countries	8199	EU countries	7898
Switzerland	305	Ivory Coast	276
Ivory Coast	245	Switzerland	273
Czech R.	163	Czech R.	187
Angola	135	Angola	149
Equat. Guinea	110	Russia	136
Japan	89	Senegal	90
Gabon	77	Japan	89
Senegal	70	Canada	84
Norway	68	Norway	80
Total for Others	9461		9262
Others not Listed	918		1033
Grand Total	10608		10576

Spanish wine exports in CY 2002 remained practically stable from the preceding year at about 10.6 million hectoliters worth €1.40 million. The main destinations, value basis, were the rest of the EU (69 percent), the United States (10 percent) Switzerland (5 percent), Japan, Norway, and Canada (2 percent each). The main EU markets for Spanish wines last year were Germany, the U.K. and France. During the first half of 2003, Spanish wine exports increased 29 percent in terms of volume and 10 percent in terms of value over the comparable period of a year earlier. The increase is mainly due to larger exports of table wines, which increased by 46 percent.

Wine imports in CY 2002 increased nearly 4 percent to 0.26 million hectoliters but in terms of value increased 13 percent to €80 million. Spain's wine imports are mainly French champagne and a few narrow market segments of quality wines and "table" wines that come mainly from France, Italy and Portugal. During the first half of 2003, Spanish wine imports increased by about 5 percent in value over the comparable period of a year earlier.

Concerning Spain-U.S. wine trade, the value of Spanish wine exports to the U.S. in 2002 increased 17 percent to €136 million. These exports were mainly composed of cava (sparkling) wines (€34 million), Rioja (€32 million), quality red wines of an alcoholic strength of between 13 and 15 percent (€19 million), and Sherry wines (€11 million). U.S. wine exports to Spain last year were about 500 hectoliters worth €0.63 million.

For the next couple of years, current abundant inventories coupled with reduced prices and declining EU wine production may boost Spanish wine exports. For the longer term, however, forecasts are difficult to make since Spanish grape harvests are very vulnerable to drought and frost.

## Market Access

1. Import Tariffs: Current import tariffs are as follows:

	(€/100 liters)
Bottled wine, still	13.10
Sparkling wine	32.00

2. Excise taxes: no excise taxes apply to domestic or imported wines in Spain.

3. Value Added Tax: Like domestic wines, imported wines are subject to a 16 percent VAT.

## Market Opportunities

As indicated above, Spain's wine imports are basically limited to a few narrow market segments. Thus, Spain should be considered as only a specialty market for wine imports. Some high priced U.S. brands already have in-country distribution made by distributors based either in Spain or elsewhere in the EU. There are also some marketing opportunities for medium-priced wines. Madrid and Barcelona appear to be the cities most open to new wine types and to foreign wines.

### Import Requirements:

Importers may be any individual or company located in Spain or in any other EU country. Spanish importers with an address in Spain must have a fiscal I.D. from the Ministry of Finance (Ministerio de Economía y Hacienda). For wine shipments larger than 3,000 liters, an import certificate— called AGRIM— is required. A deposit, with rates depending on the type of the wine, must be made; however, deposits not exceeding €120 are exempted. The import certificate must be requested prior to the shipment; it is valid for the rest of the month in which it is issued plus 4 months, i.e. a certificate issued on November 24 will be valid through March 31. The certificate is valid for the entire EU.

The following documentation is required for customs clearance of wines:

- 1) Bill of Lading
- 2) Certificate of Origin
- 3) An original Commercial Invoice with a copy
- 4) An import declaration

As indicated above, wine imports into Spain are subject to the EU import duty rates shown on the table as well as to a 16 percent VAT.

Wines are also subject to sanitary inspection at Customs. Importers must be registered at the Public Health Unit of the Autonomous Region's Government where they are located. Importers based in other EU countries and not having a domicile in Spain should be registered with the Central Government's Ministry of Health at the following address:

Registro Sanitario de Alimentos  
Direccion General de la Salud Publica  
Subdireccion General de Higiene de los Alimentos  
Ministerio de Sanidad y Consumo  
Paseo de Prado, 18-20  
28071 Madrid  
Phone: (34) 91 596-1966 and 91 596-1950  
Fax: (34) 91 596-4487

Please note that importers must have a sanitary registration number, which, along with their names and addresses, must appear on the label.

As in other EU countries, product labeling must comply with stringent information requirements including net content, alcoholic degree, lot marking, country of origin and importer's name, address and sanitary registration number. Label information must be in Spanish. Stickers are allowed. A new wine-labeling norm regulates the use geographical indications, traditional terminology (such as fino, oloroso, amontillado, etc.) as well as varietal information.

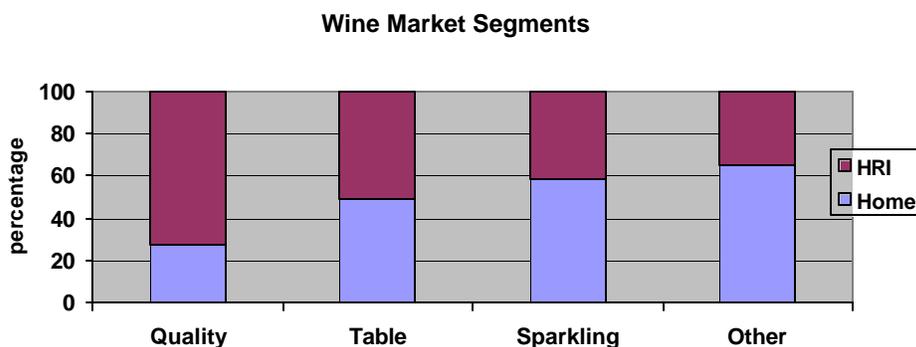
Some labeling information that is mandatory in the United States – the U.S. Government's warning statement and the sulfite declaration -- are prohibited in the EU. In addition, generic or semi-generic designations having geographic significance such as "Sherry" or "Champagne", or the terms "Method Champanoise", "table wine", and "reserve" are prohibited on labels of U.S. wine sold in the EU.

A customs agent or broker is normally involved in clearing products at customs. Import declarations are made at the State Secretariat of Commerce or its branch delegations in major port cities throughout the country. Declarations must use the exact terminology of the tariff classification under which the goods are being imported. A three-month grace period is allowed for United States-origin goods arriving without proper documentation, subject to a written guarantee by the customs agent.

## MARKETING

### Distribution

In-country distribution is normally made through wineries' distributors. As shown in the table below, consumption of quality wines takes mainly place in the hotel, restaurant, and institution (HRI) channel. Consumption of "table" wines and sparkling wines, however, is more balanced between the HRI channel and homes.



About 80 percent of HRI market is supplied by distributors. The balance is met by wholesalers (8 percent), supermarkets (6 percent) and cash & carries (4 percent). Home consumption, by contrast, is mainly supplied by retailers.

The average price for quality wines sold in Spain in 2002 was €3.8 per liter, down 1.2 percent from 2001. "Table" wine prices recovered from last year's low, averaging €1.2 per liter. Sparkling wine prices increased significantly to €4.8 per liter on average.

For exports, Spanish wineries usually sell directly to an importer located in the destination country. Lack of industry concentration and organization on the part of Spanish wine producers usually enables distributors to fully extract price concessions in both domestic and foreign markets. Only a very few large producers are able to implement their own marketing criteria. There are about 4,500 wineries in Spain; however, 50 account for 80 percent of total wine exports. Although larger firms are merging (the five largest wineries had a 32 percent market share last year) there are still a great number of small wineries.

### Foreign Market Development

The Spanish Foreign Trade Institute (ICEX), an Agency of the Ministry of Industry, Commerce and Tourism, is responsible for diversified government-funded foreign market promotion programs for food products as well as other non-food items such as industrial products, consumer goods, and fashion.

ICEX food product promotional activities are focused on EU markets and include sponsorship and participation in trade fairs, point-of-sales promotions, market research, trade missions, training and direct assistance to exporters. The Institute's promotional activities abroad are supported by eleven promotional centers (seven of which are food/beverage-related, located in New York, Toronto, Dusseldorf, The Hague, London, Paris and Milan), and by 80 trade offices around the world. Five trade offices are located in the United States (Chicago, Los Angeles, Miami, New York, and Washington). There is also an office in San Juan, Puerto Rico.

Competitors' market promotion activities are mainly conducted by other EU countries, including Portugal's Port Wines Institute, Italy's Institute for Foreign Trade, and France's SOPEXA. Market development efforts for wine in Spain are for the most part focused on participation in Intervin, a wine and spirit show associated with ALIMENTARIA, which is held biannually in Barcelona. (ALIMENTARIA is the third largest such event held in Europe, after ANUGA and SIAL.) In 2002, Intervin, with 561 companies occupying over 13,000 square meters of exhibition space, was the most popular section of Alimentaria, attracting nearly 18 percent of the show's total visitors. The next Intervin show is scheduled for February/March 2004. For more information on Intervin, please visit the following internet address:

<http://http://www.alimentaria.com/index02e.html>

### **Government Support**

Under the current limits of the WTO, EU export refunds are available for "table" wines and certain fortified wines to certain destinations. Subsidies given to wine exports are being cut back. For Spain, they amounted to €13.5 million in 2001, €2.5 million less than in the preceding year.

Spanish wine exports with EU export refunds primarily consist of bulk reds and roses destined for African markets. Other destinations include Asian and Eastern European markets (bulk whites).

### **Regulations**

EU regulation 1493/99 defines the EU wine regime. The Spanish Vineyard, Wine and Alcohol Act of 1971 was recently superseded by a new wine law which aligns Spain's wine regime with the EU legal framework. It will also provide greater protection for the origin and quality of Spanish wine in order to increase their competitiveness in international markets.